

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL TWO)

Docket No. RM2021-4

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-7 OF CHAIRMAN'S INFORMATION REQUEST NO. 3
(May 11, 2021)**

The United States Postal Service hereby provides its responses to the above listed questions of Chairman's Information Request No. 3, issued May 4, 2021. The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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1. Please refer to the attached Excel file "CHIR No. 3_Attachment.xlsx" and the Excel file "Proposal Two FCM Letters Cost Model.xlsx" filed with the Petition. Tabs "AUTO 5-DIGIT OTHER COST," "AUTO AADC COST," and "AUTO MAADC COST" in Excel file "CHIR No. 3_Attachment.xlsx" are identical to the tabs of the same name in Excel file, "Proposal Two FCM Letters Cost Model.xlsx."
 - a. Please confirm that Automation Mixed Automated Area Distribution Center (AADC) letters pass through the following operations: "Outgoing Primary," "Outgoing Secondary," "Incoming MMP," "Incoming SCF/Primary," and "Incoming Secondaries." If not confirmed, please explain.
 - b. Please confirm that Automation AADC letters pass through the following operations: "Incoming MMP," "Incoming SCF/Primary," and "Incoming Secondaries." If not confirmed, please explain.
 - c. Please confirm that Automation 5-Digit Other letters pass through the following operation: "Incoming Secondaries." If not confirmed, please explain.
 - d. The Proposal Two model shows that letter volume bypasses mail processing operations as mail becomes more presorted. Please confirm that cost pools MODS 1PLATFRM and NDCS PLA exhibit this relationship. If not confirmed, please indicate which cost pools exhibit this relationship.

RESPONSE:

- a. Confirmed
- b. Confirmed
- c. Confirmed
- d. Not Confirmed. The mailflow model shows that letter volume bypasses distribution (sorting) operations as mail becomes more presorted.

Avoidance of plant platform operations in the MODS 1PLATFRM and NDC PLA cost pools depends on the entry point of the mail (drop-shipping), and

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not presort per se; the First-Class Mail rate structure does not provide dropship discounts. Letters of all presort tiers entered at an origin facility will require handling on the platform. For a MAADC letter, such origin handling normally would include unloading the pieces and transporting them to outgoing distribution operations. Origin-entered AADC and 5-digit letters would still require the unloading activity, and additionally the mail may require cross-docking or movement to tray sorting operations (depending on container presort). AADC and/or 5-digit letters may bypass origin platform operations if they are entered at a destinating facility (e.g., a destinating AADC), but the cost avoidance is not directly due to presort. Moreover, platform costs at the destinating plant are not avoidable with increasing presort. Pieces in both AADC and 5-Digit trays will require unloading when they arrive at the destination plant, movement to incoming mail processing operations (piece and/or tray sorting, and a loading activity when they leave the plant for transportation to the delivery unit. Consequently, the platform costs will tend to be invariant to the presort level.

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2. In Response to CHIR No. 2, question 3.a., the Postal Service states that for the MODS 1MISC and NONMODS MISC cost pools the activities are "miscellaneous in nature, including such activities as the destruction of UAA mail." Please list all of the activities that are performed in the MODS 1MISC and NONMODS MISC cost pools.

RESPONSE:

The MODS operations included in the MODS 1MISC cost pool are listed in Docket No. ACR2020, folder USPS-FY20-7, file USPS-FY20-7 part1.xlsx, worksheet "I-2B. CPool Hrs by Ops&LDC-MODS." Most workhours in the cost pool (57 percent) are recorded in MODS operation 560 ("Misc Activity-Mail Proc"), defined in the Handbook M-32

Appendix A as:

Work hours used for Mail Processing activities that cannot be classified into another existing operation. Includes hours for sign painting, drafting and arts, moving equipment labeling cases, clearing mail chutes in public buildings, treatment in the medical unit, first aid, civil defense activities, guide duty, and consultations with Human Resources section.

Operations related to UAA mail are another 31 percent of workhours, primarily Secure Destruct activities and handling of PARS and FPARS waste mail. The balance of the cost pool is largely in MODS operation 132 ("Firm Verification") in which firm direct trays are verified prior to delivery or pickup.

The non-MODS MISC cost pool is defined residually as any IOCS mail processing activity not assigned to another non-MODS cost pool. Examination of IOCS tallies assigned to the cost pool indicates that the tallies include activities similar to MODS

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1MISC, as well as some activities related to parcel or container scanning not assigned to non-MODS distribution or allied labor cost pools.

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3. In Response to CHIR No. 2, question 3.c., the Postal Service states that “[i]n Proposal Two, the Postal Service analyzed IMb scans of IOCS tallies and found evidence that supported the Commission’s treatment of allied pools such MODS 1TRAYSRT, MODS 1OPPREF, MODS 1OPTRANS, but the same was not true of MODS 1PLATFRM, MODS 1SCAN, NDCS PLA and likely NONMODS ALLIED.” Please provide this analysis and supporting workpapers.

RESPONSE:

The requested analysis was provided in “FY2020 IOCS MP FCM Presort by Rate.xlsx” that was attached to the original March 24, 2021, petition for this Proposal. In the quoted statement, MODS 1OPPREF was incorrectly included in the list of cost pools for which the accepted treatment of the cost pool is supported by the IOCS data. Proposal Two would change the treatment of MODS 1OPPREF from fixed to correlated (i.e., piggybacked). Please see also the response to question 5 of this ChIR.

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4. In Response to CHIR No. 2, question 3.b., the Postal Service states that MODS Automated Flats Sorting Machine (AFSM) 100 is a direct piece distribution pool treated as "Modeled/Proportional" to reflect that letter mail "with larger dimensions, can be processed on flats equipment." Please provide analysis and supporting workpapers justifying the reassignment of the MODS AFSM 100 cost pool to "Modeled/Proportional."

RESPONSE:

As noted in the cited ChIR response and in the Petition:

These flows [in flat distribution operations] are not explicitly modeled. However, the activities and flow of pieces through these cost pools will be similar to the flow of letters through letter-shaped mail operations. In particular, the pieces will avoid comparable sorting operations based on presort levels. (Petition at 6)

Since distribution in flat operations (for letter-shape mail directed to such operations) is avoidable with presorting, those operations are appropriately treated as proportional (i.e., avoidable with presort to the extent of modeled operations). While the current treatment of the operations as piggybacked treats costs in AFSM 100 operations as mostly proportional in practice, it considers the costs as being partly fixed. While flat distribution handlings for letter-shape pieces could (in theory) be modeled, the treatment as proportional avoids the problem of accurately measuring mailflow parameters for the relatively small volume of presort letters directed to flat operations.

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5. Please provide analysis and supporting workpapers justifying the reassignment of the MODS 1OPBULK cost pool to "Correlated."

RESPONSE:

The primary function of opening units including MODS 1OPPREF and MODS 1OPBULK for presorted letter mail is to manually break down containers and distribute trays of mail to distribution operations or other downstream processing activities. In the absence of an explicit model of tray sorting, the Postal Service believes that the appropriate treatment of opening unit activities is as partly avoidable with presort, rather than fixed as in the accepted method. The analogous automated operations are included in the MODS 1TRAYSRT cost pool (where unit costs are 0.46 cents/piece for presorted First-Class Mail letters, versus 0.24 cents for manual opening units). The accepted method currently treats MODS 1TRAYSRT as piggybacked. Thus, the accepted method inconsistently treats similar automated and manual operations related to tray sortation. Proposal Two harmonizes the treatment of these operations based on the accepted treatment of the MODS 1TRAYSRT cost pool.

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6. Please provide analysis and supporting workpapers justifying the reassignment of the MODS 1POUCHING cost pool to "Correlated."

RESPONSE:

The primary function of MODS 1POUCHING is distribution and/or separation of parcels and bundles, and those operations are largely incidental to the processing of presorted First-Class letters (reflected in the unit cost of 0.02 cents/piece). However, to the extent presorted First-Class letters may appear in pouching operations, the costs may be partly avoidable with presort. The "correlated" assignment reflects the potential that the pouching costs may be partially avoidable with increasing presort.

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7. Please provide an Excel file that contains the same information and format as Excel file, "FY2020 IOCS MP FCM Presort by Rate.xlsx" for Fiscal Years 2018 and 2019.

RESPONSE:

Excel files with the requested information for each of the two years are electronically attached to the response to this ChIR.